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C O N F I D E N T I A L SECTION 01 OF 02 ABUJA 000936

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LONDON FOR AFRICA WATCHER GURNEY

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TAGS: ECON PREL EFIN NI
SUBJECT: NIGERIA: VICE PRESIDENT ABUBAKAR ON ECONOMIC ISSUES

Classified by Ambassador Howard F. Jeter; Reasons 1.5 (b) and (d).

¶1. (C) Summary. In a March 19 meeting with Ambassador Jeter, Vice President Atiku Abubakar was non-committal on rapid completion of the bilateral debt agreement, saying only that he would discuss the issue with the Director-General of the Debt Management Office. The Vice President said Nigeria remains committed to economic reform and will not run a deficit this year. He argued that the IMF and GON had not separated, but were on a temporary hiatus until Nigeria formulates an achievable macroeconomic program. The Vice President also endorsed USG long-term support for agriculture, health and education. EconOff (notetaker) was also present. End Summary.

¶2. (C) Emphasizing the need to conclude quickly the U.S.-Nigeria bilateral rescheduling agreement, Ambassador Jeter explained the USG could not amend the bilateral agreement as its terms are applied equally to all debtor countries. Despite the Embassy's good working relations with the Debt Management Office (DMO), Director-General Arikawe has been insistent on renegotiating the agreement. Therefore, we have made very little headway on completing the negotiation, the Ambassador stated. The Vice President made no comment, but agreed to discuss the issue with DMO's Arikawe. (Comment: We know Arikawe's stubbornness is the result of a policy directive straight from the President to negotiate better terms with every creditor. If we know the President has taken a keen interest, Abubakar knows it even better. Thus, his statement that he will talk to Arikawe is a bit of a throw away. It is Obasanjo, not Arikawe, who needs to be convinced. End Comment.)

¶3. (C) The Vice President stated that the absence of a formal IMF program would not cause the GON "to reverse or slowdown on economic reforms." Abubakar maintained that the IMF has not "separated" from Nigeria, but will cooperate in developing Nigeria's Poverty Reduction Strategy Paper and supporting economic capacity-building. After the GON develops its own macroeconomic program, the Vice President said, they would enlist the help of the IMF to monitor the homegrown program. Vice President Abubakar stated the President would not severely limit government spending this year because "too many Nigerians face social and economic problems." However, both he and the President were committed "to spending within our income and avoiding large deficits." When asked about the problem of state government spending, the Vice President responded that the Fiscal Responsibility Act, based on Brazil's model and now before the National Assembly, will provide a foundation for limiting states' fiscal expenditures. The Central Bank's directive limiting commercial borrowing by state governments also has reduced the problem of fiscal irresponsibility.

¶4. (U) Ambassador Jeter related the recent visit of USAID Africa Assistant Administrator Constance Newman to Nigeria. He explained that USAID is moving from a transitional strategy for the first two years of democracy in Nigeria to a long-term strategy focusing on fewer sectors, such as agriculture, health and education. Vice President Abubakar welcomed this development, concurring that agriculture, in particular, is a high Administration priority. The Vice President explained that agriculture has been the primary focus of the National Economic Council of State Governors, which he chairs. State governments have primary responsibility for agricultural development with the federal government responsible for national policy and broad-based programs that encompass more than one state, he said.

¶5. (U) The Vice President went on to explain that the GON and State Governors have subdivided the country into sectors to promote mass production of specific agricultural goods for export. For example, Cross River State and the surrounding area will target pineapple and palm products while northern states will target gum arabic, groundnuts and tomato

products. Areas in the Middle Belt will focus on citrus fruits.

¶6. (U) Ambassador Jeter encouraged the GON to focus on industrial development, particularly in Kano, as a means of providing employment in areas prone to social unrest. He emphasized the importance of increasing domestic investment as a means of signaling to foreign investors that Nigerians themselves are serious about economic development. The Vice President agreed, but lamented that high domestic interest rates prohibit Nigerians from investing in infrastructure and industry. To get around the high cost of borrowing, the GON has persuaded commercial banks to earmark ten percent of profits to support development of small- and medium-size enterprises. However, this program has not yet taken-off. As a means of sourcing lower-cost funds, Ambassador Jeter described the U.S. Export-Import Bank programs available to Nigerian investors who want to use American goods and services for their projects.

¶7. (C) Comment. The Vice President's response on the bilateral debt agreement indicates that he may not be actively involved in this issue. This supports the DMO's earlier assertion that each bilateral agreement must be approved directly by President Obasanjo. Also, Nigeria may no longer feel the urgency of completing the bilateral agreements now that the IMF has withdrawn from a formal program. Projected payments to the Paris Club, even under the December 2000 Agreed Minute, will exceed the GON's 2002 budget for total external debt servicing. The GON will most likely fall into arrears with the Paris Club notwithstanding completed bilateral agreements.

¶8. (C) Comment Continued. The Vice President's statement to continue progress on economic reform and to spend within the revenue stream this year is a prudent one; however, he could not reasonable be expected to say anything that strayed too far from fiscal orthodoxy. However, other officials within the GON and National Assembly have previously stated that 2002 spending may greatly exceed revenue; some observers, including World Bank staff, predict the deficit may reach as much as 20 percent of the eventual budget. Any shortfall in revenue from the sale of NITEL will certainly have a significant impact on government spending this year; the auction price of USD 1.3 billion is nearly one-fourth of the GON's projected revenue for 2002. Until the Executive and National Assembly engage each other in the battle over the 2002 budget, it will be impossible to determine what course of action will win out. End Comment.
Jeter